

# **EXHIBIT 8**



**CITY OF FLINT**  
OFFICE OF THE EMERGENCY MANAGER



Gerald Ambrose  
Emergency Manager

**TO:** Wayne Workman, Deputy Treasurer  
Treasury Department  
State of Michigan

**FROM:** Jerry Ambrose, Emergency Manager  
City of Flint *[Handwritten signature]*

**DATE:** March 3, 2015

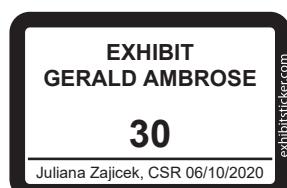
As the Emergency Manager for the City of Flint, I am charged with restoring the City government to financial solvency, and working to assure that the City moves forward on a financially sustainable basis. The steps taken over the past three years have been difficult. Taxes and fees have been raised, services and workforce reduced, and ongoing costs, including legacy costs, have been constrained.

The current controversy surrounding the provision of water, and the path for resolution, has a potentially significant impact on the progress that is being made. I am satisfied that the water provided to Flint users today is within all MDEQ and EPA guidelines, as evidenced by the most recent water quality results conducted for MDEQ. We have a continuing commitment to maintain water safety and to improve water quality, and have dedicated resources to assure this commitment will be made.

The oft-repeated suggestion that the City should return to DWSD, even for a short period of time, would, in my judgment, have extremely negative financial consequences to the water system, and consequently to the rate payers. By the most conservative estimates, such a move would increase costs by at least \$12 million annually, with that amount achieved only by eliminating virtually all budgeted improvements in the system. For a system with Unrestricted Assets of only \$740,745, according to the June 30, 2014 audited financial statements, the only recourse within the City's control would be to increase revenues significantly. And in my judgment, that would come from raising rates for water by 30% or more. Further, changing the *source* of the city's water would not necessarily change any of the *aesthetics* of the water, including odor and discoloration, since those appear to be directly related to the aging pipes and other infrastructure that carry water from the treatment facility to our customers.

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This direction of discussion also deviates from what, in my judgment, should be the focus: How can we not only operate and maintain a system to assure the delivery of safe and quality water dependably, but significantly reduce the cost of water and sewer to the users? At an average of \$149 per month for water and sewer service for a residential user, the cost is extremely high in comparison to surrounding areas, as well as most areas across the state, and creates a significant financial burden for many users. In my judgment, we should all be concentrating on how to reduce rates by 50% or more. Unfortunately, there are no easy or evident answers, and continuation of the status will be an impediment to the sustainable recovery of the City of Flint. It is a conversation that I expect we will have with the recently created Water Quality Advisory Committee.

My reasoning for this conclusion is as follows:

One of the decisions made in the context of beginning to eliminate deficits and to restore financial stability to the City of Flint was to increase water and sewer rates significantly – the only choice available to financially stabilize a system that as of June 30, 2012, had a deficit of \$8,758,091. Another was to leave DWDS for the KWA because it offered the opportunity to lower future rate increases. A third decision was to utilize the Flint River on an interim basis when DWSD unilaterally terminated the City's contract for water purchase. That decision was made because it also offered an immediate cost savings opportunity which translated into the ability to upgrade the Water Treatment Plant without having to seek financing. It was a reasonable decision because of our experience in using the river in a back-up capacity, including test runs on a quarterly basis for several decades.

Unfortunately, the switch to the river as a primary source was more challenging than anticipated, and the harsh winter of 2013-2014 resulted in much more damage to the aging water infrastructure than in previous years. The result was the issuance of required notices that water exceeded established guidelines for safety as it could affect certain vulnerable populations, and some users of the system experienced unpleasant odors and discoloration. Some users also appeared to have had some negative reactions to the new source of water. However, as soon as the test results were known, City staff took immediate actions to address the concerns. These actions are evidenced today by the fact that MDEQ has certified that our most recent testing shows water from all testing sites to be well within acceptable guidelines. Additionally, the City is continuing to take the necessary actions to assure that the water supply remains safe and that water quality continues to improve.

As the City has moved to address the situation, the suggestion continues to be made that the City should re-engage with DWSD and purchase water at least until the KWA pipeline is supplying water. As evidenced by the most recent letter from DWSD, such a decision would immediately increase the City's cost by \$846,700 per month, or \$10,160,400 per year, just for the fixed cost portion of the price. The actual *purchase* of water would be an additional fee, and dependent upon

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the quantity purchased. We estimate the actual water purchase cost to average more than \$1 million per month, for a grand total of approximately \$22 million per year. Finally, the DWSD offer is conditioned upon the City (or presumably the KWA) agreeing to negotiate a long term contract (30 years) for back-up.

The \$22 million annual estimate of increased costs to purchase water from DWSD would be minimally offset by an approximate \$3 million in reduced operating costs, and could be further offset by an additional \$9 million, but only if all funding for capital improvements to the system are eliminated. To eliminate all funding dedicated to repairing, stabilizing, and improving the system would be totally irresponsible and would have long term negative consequences to the City and to future rate payers.

As you are aware we have recently brought in outside expert assistance to evaluate the steps we have taken to assure that the water is safe and to continue to improve water quality. We are expecting specific recommendations within the next few weeks, and are committed to implementing those recommendations in a timely manner. Many steps have already been taken. I am confident that implementing their recommendations will assure a continuing supply of safe water as well as improved quality, and at far less cost than re-engaging DWSD.

We have also created a 40-member Water Advisory Committee and a 13-member Technical Advisory Committee to assure two-way communication with the public and users of the system. Those committees will begin to meet this week, and we look forward to answering their questions and receiving their input.

It is unfortunate that problems and concerns with quality have arisen, and we are working every day to address the issues that caused them. Maintaining safe water and improving quality is a top priority as we work to make the City of Flint an attractive place to live, work, study, and play.

02/09/2015

**UTILITY WIDE WATER FUND PROFESSIONAL SERVICES**  
**PERIOD ENDING 02/28/2015**

ACCOUNT DESCRIPTION	2014-15 AMENDED BUDGET	ACTIVITY FOR		YTD BALANCE 02/28/2015	ENCUMBERED YEAR-TO-DATE	UNENCUMBERED BALANCE	% BDGT USED					
		MONTH 02/28/2015	YTD BALANCE 02/28/2015									
<b>Dept 536.100-Utilities - Water Administration</b>												
Fund 591 - Water Fund												
801.000 Professional Service	2,320,000.00	50,418.75	537,844.65	348,549.88	1,433,605.47	38.21						
ROWE City Engineering			contract	\$ 79,000.00								
Dump Site Analysis			contract	\$ 42,892.00								
LAN Water Implementation			contract	\$ 244,900.00								
JFA /U.S. Dept Interior					\$ 27,295.00							
Raftelis Financial Update					\$ 23,810.00							
Bray Road					\$ 500,000.00							
TTHM Violation Letters/Mailings					\$ 25,000.00							
MDEQ Permit Fees					\$ 100,000.00							
Energy Costs/Performance Contracts					\$ 250,000.00							
Veolia Water Consultant					\$ 40,000.00							
City Works/Assest Management					\$ 350,000.00							
Operational Contingency					\$ 117,500.00							
Total Dept 536.100-Utilities - Water Administration				\$ 366,792.00	\$ 1,433,605.00							
<b>Dept 540.100-Water Service Center Management</b>												
Fund 591 - Water Fund												
801.000 Professional Service	374,400.00	0.00	74,877.03	250,869.51	48,653.46	87.00						
Sewerlines Cty Engineering			contract	\$ 190,000.00								
Internal Investigations			contract	\$ 95,645.22								
Landfill Services					\$ 12,500.00							
Janitorial Services					\$ 4,260.00							
After Hours Water & Staking					\$ 2,500.00							
Line Stopping					\$ 25,000.00							
				285,645.22	44,260.00							

**Dept 540.202-Wsc-Water Distribution Mains**

Fund 591 - Water Fund

801.000	<b>Professional Service</b>	60,000.00	0.00	0.00	500.00	59,500.00	0.83
	Fire Extinguisher Services			contract	500.00		
					500.00		
						Balance is being used for budget adjustment to cover overruns for garage charges	
	<b>Current garage overruns is \$100.000.00</b>					<b>59,500.00</b>	

**Dept 540.300-Capital Improvement**

Fund 591 - Water Fund

801.000	<b>Professional Service</b>	2,660,000.00	0.00	0.00	60,000.00	2,600,000.00	2.26
	Water Meters			contract	60,000.00		
	Water Main Replacement Iroquois					\$ 2,500,000.00	
	Valve Exercising					\$ 100,000.00	
	<b>Total Dept 540.300-Capital Improvement</b>				<b>\$ 60,000.00</b>	<b>\$ 2,600,000.00</b>	

**Dept 545.200-Water Plant - Operations**

Fund 591 - Water Fund

801.000	<b>Professional Service</b>	80,000.00	0.00	8,866.98	10,323.02	60,810.00	23.99
	Lab Testing			contract	10,323.02		
	Dam inspections					\$ 11,500.00	
	Comprehensive Regulatory Compliance					\$ 40,000.00	
	Lab Proficiency Testing					\$ 6,000.00	
	All Max Data Support					\$ 2,500.00	
	<b>Total Dept 545.200-Water Plant - Operations</b>				<b>\$ 10,323.02</b>	<b>\$ 60,000.00</b>	

**Dept 545.201-Water Plant Maintenance**

Fund 591 - Water Fund

801.000	<b>Professional Service</b>	26,000.00	0.00	3,700.00	12,955.00	9,345.00	64.06
	Vibration Analysis			contract	\$ 5,500.00		
	Elevator Inspections & Services			contract	\$ 2,455.00		
	Diving for Dams Inspection			contract	\$ 5,000.00		
	RPZ Inspection & Repair					\$ 4,000.00	
	Generator Inspection & Services					\$ 5,000.00	
	<b>Total Dept 545.201-Water Plant Maintenance</b>			<b>3,700.00</b>	<b>\$ 12,955.00</b>	<b>\$ 9,000.00</b>	<b>64.06</b>

## Dept 545.300-Water Plant - Capital improvements

Fund 591 - Water Fund

801.000	<b>Professional Service</b>	2,900,000.00	0.00	927,098.07	1,296,474.81	676,427.12	76.67
	Installation of Storage Tanks			contract	\$ 716,272.00		
	Motor Control Upgrade			contract	\$ 440,157.00		
	Easement- Electrical Grounding			contract	\$ 4,054.00		
	Lime Residual			contract	\$ 135,991.81		
	Cedar Street Pump Station					\$ 500,000.00	
	Pump Station Feeder					\$ 125,000.00	
	TTHM Operational Evaluation					\$ 50,000.00	
<b>Total Dept 545.300-Water Plant - Capital improvements</b>		<b>2,900,000.00</b>	<b>0.00</b>		<b>\$ 1,296,474.81</b>	<b>\$ 675,000.00</b>	<b>76.67</b>

Total	Budgeted	YTD Balance	Encumbered	Unencumbered
	\$8,420,400.00	\$1,552,386.73	\$2,032,690.05	\$4,821,865.00

GL NUMBER	DESCRIPTION	WATER FUND EXPENSES				STATUS QUO REVISED 2015-16 BUDGET FOR DWSD	2015-16 BUDGET CHANGES WITH DWSD & ALL CAPITAL FUNDING ELIMINATED
		2013-14 ACTIVITY	2014-15 AMENDED BUDGET	2015-16 APPROVED BUDGET	2015-16 BUDGET CHANGES FOR DWSD		
<b>Expenses - Water Fund</b>							
<u>Dept 536.100-Utilities - Water Administration</u>							
Wages and Fringes	\$76,155	\$528,777	\$445,851			\$445,851	
Repairs and Improvements	\$2,497,397	\$2,320,000	\$2,320,000		\$0	\$2,320,000	(\$2,320,000)
Other Expenses	\$2,295,410	\$2,248,750	\$2,248,750			\$2,248,750	
<u>Dept 540.100-Water Service Center Management</u>							
Wages and Fringes	\$199,883	\$228,451	\$256,343			\$256,343	
Repairs and Improvements	\$140,599	\$374,400	\$350,000		\$0	\$350,000	(\$350,000)
Other Expenses	\$106,780	\$477,292	\$547,649		\$0	\$547,649	
<u>Dept 540.200-Wsc-Meter Reading - Water</u>							
Wages and Fringes	\$439,351	\$488,365	\$481,316		\$0	\$481,316	
Other Expenses	\$151,894	\$64,000	\$64,000		\$0	\$64,000	
<u>Dept 540.202-Wsc-Water Distribution Mains</u>							
Wages and Fringes	\$2,383,598	\$3,006,530	\$3,024,627		\$0	\$3,024,627	
Repairs and Improvements	\$391	\$60,000	\$85,000		\$0	\$85,000	(\$85,000)
Other	\$1,210,118	\$920,457	\$849,500		\$0	\$849,500	
<u>Dept 545.200-Water Plant - Operations</u>							
Wages and Fringes	\$988,523	\$1,827,003	\$1,761,027	Staffing	(\$376,098)	\$1,384,929	
Repairs and Improvements	\$48,723	\$80,000	\$60,000			\$60,000	(\$60,000)
Supplies, Utilities and Other	\$22,779,389	\$3,445,656	\$3,318,656	Fixed Charge DWSD Commodity Chg DWSD Chemical Purchase Electrical Power	\$10,160,400 \$12,818,190 (\$1,486,800) (\$850,000)	\$23,960,446	
<u>Dept 545.202-Water Plant - Dam Operations</u>	\$119,216	\$0	\$0			\$0	
<u>Dept 545.203-Water Plant - Dam Maintenance</u>	\$126,623	\$0	\$0			\$0	
<u>Dept 545.300-Water Plant - Capital Improvements</u>							
Repairs and Improvements	\$968,815	\$2,900,000	\$1,200,000			\$1,200,000	(\$1,200,000)
Other	\$980,161	\$3,700,000	\$2,400,000			\$2,400,000	
<u>Dept 900.100-Cost Allocation and Retiree Healthcare</u>	\$3,111,662	\$5,600,242	\$6,077,577			\$6,077,577	
<u>Dept 966.101-PILOT Payment</u>	\$1,130,000	\$1,130,000	\$1,130,000			\$1,130,000	
<u>Dept 966.493-Debt Service</u>	\$2,638,071	\$2,638,071	\$2,638,071			\$2,638,071	
<u>Dept 540.300-Capital Improvement</u>							
Repairs and Improvements	\$0	\$2,660,000	\$2,660,000			\$2,660,000	(\$2,660,000)
Other	\$0	\$530,000	\$530,000			\$530,000	
<u>Dept 233.100-Purchasing</u>	Wages and Fringes	\$63,263	\$0	\$29,313		\$29,313	
<u>Dept 253.202-Bad Debt Expense</u>		\$161,939	\$0	\$0		\$0	

<u>Dept 536.206-Utillities - Water Cross Connection Prog</u>	\$100,314	\$109,945	\$108,182	\$108,182
<u>Dept 545.201-Water Plant Maintenance</u>				
Wages and Fringes	\$1,063,567	\$1,147,846	\$1,127,386	\$1,127,386
Repairs and Improvements	\$8,142	\$26,000	\$26,000	\$26,000
Other	\$420,048	\$671,249	\$689,000	\$689,000
<b>591-536.100-990.200</b>	<b>KWA Operation Payment</b>	<b>\$0</b>	<b>\$584,000</b>	<b>\$584,000</b>
	Reserve	\$0	\$2,873,750	\$2,873,750
<b>Total Expenses</b>	<b>\$44,210,032</b>	<b>\$37,767,035</b>	<b>\$37,886,000</b>	<b>\$20,265,692</b>

<u>WATER FUND REVENUES</u>					2015-16			
GL NUMBER	DESCRIPTION	2013-14	2014-15	2015-16	2015-16 BUDGET FOR DWSD	STATUS QUO REVISED WITH DWSD	2015-16 BUDGET WITH DWSD	2015-16 BUDGET & ALL CAPITAL FUNDING
		ACTIVITY	AMENDED BUDGET	APPROVED BUDGET				Inc.
<u>Revenues- Water Fund</u>								
Meter Water Sales	\$42,132,946	\$37,000,000	\$37,000,000		\$20,265,692	\$57,265,692	55%	\$48,576,942 31%
Other Revenues	\$1,589,155	\$886,000	\$886,000		\$0	\$886,000		\$886,000
Asset Sale	\$3,493,743	\$0	\$0		\$0	\$0		\$0
Carry Over	\$0	\$3,263,505	\$0		\$0	\$0		\$0
<b>Total Revenues</b>	<b>\$47,215,844</b>	<b>\$41,149,505</b>	<b>\$37,886,000</b>		<b>\$20,265,692</b>	<b>\$58,151,692</b>		<b>\$48,576,942</b>